

Testimony
House Bill No. 90
Introduced by Rep. Jesse O'Hara
By Request of the Teachers' Retirement Board

Testimony by David L Senn on behalf of the Teachers' Retirement Board
January 24, 2013

Background

The Optional Retirement Plan (ORP) was created for faculty and administrators of the Montana University System (MUS) effective January 1, 1988. Initially, MUS employees could elect to join ORP or TRS. Since 1993, because of selection against the Teachers' Retirement System (TRS), new MUS employees are required to join the ORP. When the ORP was created, each employer within the MUS was required to contribute to TRS a supplemental contribution to cover their share of TRS unfunded liabilities. The supplemental contribution rate was established as a percentage of the earned compensation of MUS employees who participate in the ORP. The supplemental rate has varied over the years from an initial rate of 4.503%, decreasing to 2.93% in 1993, and today is 4.72%. This cost is totally paid by MUS employers; employees who participate in the ORP do not contribute to TRS.

Following the closure of TRS to new MUS employees, §19-20-621, MCA, was amended, reducing the supplemental rate employers within the university system contributed to TRS, but required MUS employers to continue to make supplemental employer contributions sufficient to amortize the unfunded liability of the MUS' TRS members by July 1, 2033. Therefore, after 1993, TRS was closed to new MUS employees, and a fixed period of time was established in which to amortize the unfunded liabilities of MUS active and retired members. The legislature also directed the TRS Board to periodically review the MUS supplemental employer contribution rate and recommend adjustments to the legislature as needed to maintain the amortization of the university system's unfunded liability by July 1, 2033.

Had the legislature not required the MUS to cover their fair share of TRS unfunded liabilities when the TRS was closed to MUS faculty and administrators, K-12 employers would have been left to cover the majority of the cost of the unfunded liabilities of MUS faculty and administrators (active and retired) who remained in the TRS.

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When you close a system to a group of employees you must continue to fund the existing liabilities of the remaining members, and it is common to require employers to continue to make the contributions they would have contributed if the system had not been closed, i.e., as a percentage of future total payroll. Based on the July 1, 2012 valuation, House Bill 90 seeks to increase the MUS supplemental contribution rate by 4.32%, from 4.72% to 9.04%, to amortize the MUS unfunded liability by July 1, 2033. This is the bargain that was made with the legislature in 1987 when the ORP was created. Unfortunately, the Great Recession of 2009 increased the unfunded liabilities of the retirement system, including those attributable to MUS participants, and now requires that the University System's supplemental employer contribution rate be significantly increased. Today, because the current statutory rate of 4.72% is less than the rate recommended by the TRS Actuary of 9.04%, if HB 90 fails, almost half of the MUS unfunded liability costs will be shifted to K-12 employers.

We ask for your support for HB 90. If you cannot support an increase in the MUS supplemental employer contribution rate required to fund the MUS employees' unfunded liabilities, we ask that you then increase the employer contribution rate paid by K-12 and all other employers so that the liabilities will be funded as required by the Montana Constitution.